



## COUNCILMEMBER CARL DeMAIO

FIFTH DISTRICT

CITY OF SAN DIEGO

### MEMORANDUM

DATE: January 24, 2011

TO: Mayor and Councilmembers

FROM: Councilmember Carl DeMaio

RE: 8 Alternatives to Water Rate Increases

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Today, the City Council will consider raising water rates again on San Diego working families and businesses. This increase will push water rates 67% higher than in 2007, and comes at a time when unemployment in San Diego County is at a staggering level of 10.4%.<sup>1</sup>

I oppose this rate increase and urge you to do the same.

I believe that the City has an obligation to explore each and every option available to it before increasing the cost of living and doing business to San Diego ratepayers.

While the rate increase is billed as an uncontrollable “pass-through” of costs from the San Diego County Water Authority, the City has many cost-saving options available to it that can help mitigate the impact of these costs.

Specifically, I propose that the City pursue the following steps as an alternative to raising water rates on San Diego’s businesses and working families.

#### 1. Reform Pension Costs in the Water Department

The City can achieve substantial savings for ratepayers that can be fully realized in FY 2012 and 2013. Specifically, pension costs must be reformed to more sustainable levels.

The City’s pension payment for the FY 2011 budget was over \$229 million, an increase of approximately 48% from the previous year. The portion of these pension costs in the

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<sup>1</sup> State of California Employment Development Department. San Diego-Carlsbad-San Marcos Metropolitan Statistical Area. December 17, 2010.

Water Department are funded by ratepayers, underscoring the need for pension reform to help provide relief to San Diegan's water bills.

## **2. Eliminate the Bid to Goal Program**

I am pleased by the recent announcement that the City plans to eliminate this costly bonus program. A devastating audit found that the program awarded \$28 million in unsubstantiated bonuses over 3 years. I am hopeful that the City will shortly, or already has exercised, its "Termination for Convenience" authority in the Bid to Goal Memorandum of Understanding.

## **3. Reform Other Salaries and Benefits**

The City must address its overall labor cost structure not only in the General Fund, but in the enterprise funds as well. Ratepayers fund the cost of unsustainable fringe benefits in their utility bills. The table below shows the increase in costs in the Water Utility Operating Fund. The cost per position increased by more than 7% from FY 2010 to FY 2011.

<b>Water Utility Operating Fund Fringe Expense*</b>			
	<b>FY 2010 Budget</b>	<b>FY 2011 Budget</b>	<b>% Change</b>
Salaries & Wages	\$44,269,273	\$38,611,408	-12.78%
Fringe Benefits	\$21,676,569	\$24,703,636	13.96%
FTE	785.5	704.3	-10.34%
Personnel Cost per Position	\$83,954	\$89,902	7.08%

\*Does NOT include unfunded cost of retiree health care

The table below shows the detailed cost of fringe benefits in the City's FY 2011 budget. In addition to the City's annual pension obligation, ratepayers fund a second 401(k)-style, defined contribution system called SPSP, as well as retirement contribution offsets for some employees. The costs for retiree health care (OPEB) are also understated, as the City underfunds this liability on an annual basis.

<b>Water Utility Operating Fund Personnel Expenses (FY 2011 Adopted Budget)</b>		
	<b>FY 2010</b>	<b>FY 2011</b>
FTE	785.5	704.3
Salaries and Wages	\$44,269,273	\$38,611,408
Employee Offset Savings		\$290,725
Flexible Benefits		\$3,904,358
Long-Term Disability		\$331,517
Medicare		\$460,201
OPEB*		\$4,123,008
Retiree Medical Trust		\$664
Retirement 401 Plan		\$2,648
Retirement ARC		\$11,614,531
Retirement DROP		\$89,664
Retirement Offset Contribution		\$717,979
Risk Mgmt Admin		\$638,977
SPSP		\$1,685,215
Unemployment Insurance		\$76,278
Unused Sick Leave		\$27,960
Workers' Compensation		\$739,911
Fringe Sub-Total	\$21,676,569	\$24,703,636

\*OPEB represents the *funded* portion of retiree health care only

The City needs to reform its overall labor costs to reflect not only sustainable levels, but also to align with the local labor market. Savings achieved from reducing the cost of fringe benefits can help to offset the need for water rate increases.

#### 4. Streamline Staffing

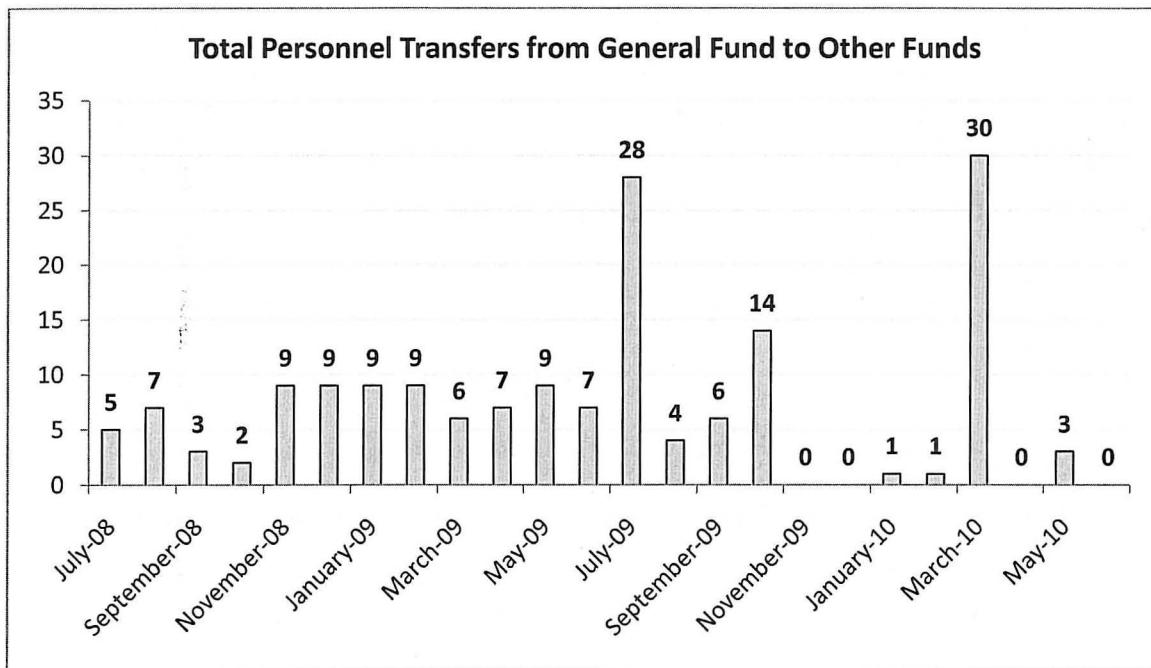
In fiscal years 2009 and 2010, the City transferred 169 employees from the General Fund to other funds, such as Enterprise Funds. This equates to the aggregate movement of approximately \$9 million in salary. Of these employee transfers, 38 were moved to the Water Department, and another 29 were transferred to Metropolitan Wastewater.<sup>2</sup>

<b>Fiscal Years '09 and '10 Employee Transfers from General Fund to Water and MWWD</b>			
<b>Department</b>	<b># of Employees</b>	<b>Salary - General Fund</b>	<b>Salary - Enterprise Fund</b>
Water	38	\$ (2,016,476)	\$ 1,956,332
MWWD	29	\$ (1,533,276)	\$ 1,506,312

<sup>2</sup> Personnel Department monthly transfer reports available upon request from Council District 5 office.

Transfers to these departments included moving employees from a wide variety of General Fund departments, including but not limited to Police, the City Attorney's office, Community & Legislative Services, Fire Rescue, Library and the Ethics Commission.

A timeline of personnel transfers from the General Fund to the Enterprise Funds in Fiscal Years 2009 and 2010 is provided below:



The City must streamline its staffing in the Public Utilities Department (PUD) before resorting to water rate increases on residents. To this end, I have asked that the NR&C Committee examine the appropriateness of these transfers.<sup>3</sup>

##### **5. Implement Competitive Bidding on Water and Wastewater Support Services**

Recent announcements that the City intends to explore Managed Competition opportunities within the Public Utilities Department (PUD) are certainly welcome to voters, who approved Proposition C in 2006. The City should prioritize obtaining competitive bids for these services.

<sup>3</sup> See "Water Rate Increases: The Need to Curb Wasteful Spending at Water Agencies." September 8, 2010.

## **6. Explore Public-Private Partnerships Related to Water and Wastewater Functions**

The City should also explore opportunities for public private partnerships to realize even greater cost savings to ratepayers. The City should issue a Request for Information (RFI) to seek private sector input and interest in engaging in varying degrees of public-private partnerships to operate the PUD infrastructure.

## **7. Demand County Water Authority Cost-Cutting**

The City of San Diego retains significant representation on the San Diego County Water Authority (CWA) Board of Directors through its appointees. The City should more actively engage its representatives regarding the cost structure at the CWA. I have requested that the Natural Resources & Culture (NR&C) committee more actively communicate with these representatives on behalf of ratepayers in the coming year.<sup>4</sup>

## **8. Fulfill Promises to Ratepayers**

In 2007, the City of San Diego promised ratepayers auditing of PUD finances and performance, as well as the creation of a Dedicated Reserve from Efficiencies and Savings (DRES) “to help offset future rate increases.”<sup>5</sup> As a member of the Independent Rates Oversight Committee (IROC) has pointed out, the City committed that “at the end of four years [i.e. July 1, 2011], any funds transferred into this reserve and not used for capital improvements will be used to lower future rates for the water and wastewater systems.”

As further pointed out:<sup>6</sup>

*“[t]he original policy establishing the Water Fund Rate Stabilization Reserve specified that \$20.5 million be kept in this reserve in order to mitigate future rate increases. Yet, instead of using these funds for rate relief, [the] utilities department proposed to retain both the DRES and Rate Stabilization reserves to fund future capital projects even though neither of them have been budgeted for specific ‘shovel ready projects’ and remain as an unbudgeted reserve available to temporarily mitigate the proposed rate increase. The data also does not support [the] contention that these funds are needed for future capital projects because \$218 million worth of capital projects won’t begin until 2020, and other funds already exist which could be used to fund capital projects including \$18.7 million of CIP program contingency funds, and \$16.4 million of revenues previously raised and no longer needed for cancelled projects. The current water capital*

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<sup>4</sup> See January 4, 2011 memorandum, “2011 NR&C Priorities.”

<sup>5</sup> “Fact Sheet: Mayor Sanders Details Plan to Safeguard Water and Wastewater Ratepayer Funds.” February 15, 2007.

<sup>6</sup> Letter from Andrew Hollingworth to City Council re: Item 200 on January 24, 2011 Docket. January 19, 2011.

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*improvement program is also currently projected to realize a \$67 million (11%) cost savings for all funding sources by 2013 due to favorable construction market conditions."*

I am concerned that the issues raised above have not been fully vetted, and that the City risks breaking its commitment to ratepayers regarding the use of DRES funds to help mitigate water rate increases. It is imperative that the City follow through on its commitments from 2007 when it asked San Diegans for four years of water rate increases.

By aggressively implementing all available cost-cutting strategies and fulfilling past promises to ratepayers, the City of San Diego can avoid placing additional, undue burdens on San Diego's working families and businesses. I urge the Mayor and City Council to reject a water rate increase to ratepayers and to instead pursue each of the strategies laid out above.

cc: Andrea Tevlin, Independent Budget Analyst